

# SENATE BILL REPORT

## EHB 2549

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As of February 18, 1998

**Title:** An act relating to the risk-based capital of health carriers.

**Brief Description:** Establishing risk-based capital standards for health carriers.

**Sponsors:** Representatives L. Thomas, Wolfe and Thompson; by request of Insurance Commissioner.

**Brief History:**

**Committee Activity:** Financial Institutions, Insurance & Housing: 2/19/98.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

**Staff:** Joanne Conrad (786-7472)

**Background:** The National Association of Insurance Commissioners (NAIC) and several states are moving towards standardization of risk assessment tools, in order to protect insureds by improving the ability to monitor solvency of carriers.

**Summary of Bill:** For the purpose of monitoring health carrier solvency, a method of tracking and reporting of "risk based capital" (RBC) is established. The RBC of all domestic carriers (and foreign or alien carriers under some circumstances) is reported by the carriers to the Insurance Commissioner (IC, the commissioner), the NAIC, and in other jurisdictions where the carrier is authorized to do business.

The goal is to maintain an excess of capital above the required RBC level. There are various problematic levels of RBC. For each of these levels, the IC requires explanation and corrective action by the carrier, including revision of the RBC plan. At the mandatory control level, the IC can place the carrier under regulatory control.

A carrier's "authorized control level RBC" is determined by a formula, taking into account the carrier's assets, the risks of adverse experience, interest rate risk, and other business risk.

Three additional RBC levels are calculated, by using a multiplier with the "authorized control level." The 3 RBC levels at which the commissioner takes action are the "company action level," the "regulatory action level" and the "mandatory control level." These three levels represent perceived levels of seriousness of risk.

Rights to notice and hearing are provided, with specified times for the carriers and the commissioner to respond to one another. Carriers have the ability to challenge IC findings, reports and determinations.

The IC may contract for experts and consultants, whose fees, costs and expenses are paid by the affected carrier being reviewed.

All RBC reports and plans are confidential, to be used only as a regulatory tool, and cannot be used to rank carriers, or for ratemaking, or to calculate appropriate premium levels or rates of return.

These provisions also apply to persons or entities that are similar to health carriers, but are not licensed as such.

**Appropriation:** None.

**Fiscal Note:** Requested on January 20, 1998.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.